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1 RECORD OF ORAL HEARING
2 UNITED STATES PATENT AND TRADEMARK OFFICE

3
4 BEFORE THE BOARD OF PATENT APPEALS
5 AND INTERFERENCES

6
7 *Ex Parte* STUART SERKIN, and JOHN MALITZIS

8
9 Appeal 2009-012727
10 Application 09/404,518
11 Technology Center 3600

12 Oral Hearing Held: June 8, 2010

13
14 Before HUBERT C. LORIN, BIBHU R. MOHANTY, and
15 CAROLYN D. THOMAS, *Administrative Patent Judges*.

16 APPEARANCES:

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18 ON BEHALF OF THE APPELLANT (TELEPHONIC):
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1 The above-entitled matter came on for hearing Tuesday, June 8, 2010,
2 commencing at 9:30 a.m., at the U.S. Patent and Trademark Office, 600
3 Dulany Street, Alexandria, Virginia, before Deborah Courville, a Notary
4 Public.

5 JUDGE LORIN: Good morning, counsel.

6 MR. MALONEY: Good morning.

7 JUDGE LORIN: This should be Appeal No. 2009-012727. Is that
8 correct?

9 MR. MALONEY: That's correct. My name is Denis Maloney, that
10 is D-e-n-i-s, M-a-l-o-n-e-y, Registration No. 29,670.

11 JUDGE LORIN: Okay. Thank you, counsel. The Panel today
12 consists of Judge Mohanty, Judge Thomas, and myself, the presiding judge,
13 is Judge Lorin, L-o-r-i-n. You have 20 minutes. When you're ready, you
14 may proceed.

15 MR. MALONEY: Okay. Thank you. Today I'd like to discuss a
16 couple of the claims in this application, and we'll start with Claim 1. Claim
17 1 is directed to a computer-implemented method for execution of an order,
18 and it includes the novel steps for a received customer order checking a
19 market participant identification to see if that matches a market participant
20 identification representing a quote in the computer system, which is at the
21 best bid or best offer price in the computer system, and with a match of these
22 identifications, matching off the customer order against the opposing quote
23 of the market maker participant, irrespective of any other priority established
24 for matching orders in the computer system. This is essentially a paraphrase
25 of Claim 1.

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1 These particular features address a fundamental problem in markets
2 such as the NASDAQ stock market, of how to entice market participants,
3 such as ECNs and market makers, to post quotes in the electronic market
4 such as NASDAQ, but who also have proprietary matching systems to post
5 their order book, if you will, on NASDAQ and thereby provide a broad
6 dissemination of all the total interest that may exist in the market at any one
7 particular time. So this allows, thus, the display of additional equinity on
8 public markets.

9 The Examiner relies upon -- principally, on a U.S. patent, Tilfors,
10 which was based upon the Board's dicta in its prior decision, in which the
11 Board reversed the Examiner. In the prior decision, the Board stated that we
12 understand that a market maker may have itself as its client, but in Tilfors,
13 the customer is one and the same with the market participant, where the
14 broker/dealer acts on his own as a market maker.

15 The Board never provided any citation from where its understanding
16 that a market maker may have itself as a client was reached. But if we look
17 at Tilfors and the statement by the Board, first of all, a broker/dealer is not
18 defined in Tilfors, whereas a market maker is an entity that must establish a
19 two-sided quote in securities that makes a market happen. When an entity
20 trades in securities that's not a market maker, and according to Tilfors, it's a
21 firm or a private investor. And Tilfors describes a customer as a
22 professional investor. The firm is also described by Tilfors as a private
23 investor. So in any event, I don't -- we don't see where the Board's
24 understanding that a market maker may have itself as a client or that the
25 customer is one and the same with the market maker participant, and when
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1 the broker/dealer acts on its own behalf, it's a market maker, is at all
2 suggested or supported by Tilfors.

3 So Tilfors suggests -- Tilfors -- describes that the customer is one and
4 the same when the market participant and when the broker/dealer acts on its
5 own behalf as a market maker. Essentially, Tilfors discloses an exchange
6 system that allows a market maker to adjust how to automatically update its
7 quoted volume based on the type of counterpart to a matched order. It
8 allows quotes that may result in a trade between market makers to be hidden
9 for some time before being matched to allow a market maker a chance to
10 back off of -- the quote. That's essentially what Tilfors is getting at.

11 Tilfors has no suggestion of the features of Claim 1. In particular, it
12 does not suggest that, for a custom order, to check if the market participant
13 identification associated with a customer order matches a market participant
14 identification representing a quote in the system, which has the best bid or
15 best offer price. And then it doesn't suggest matching off that custom order
16 against that particular quote irrespective of any other priority established for
17 matching in the computer system.

18 And, indeed, when you look at Tilfors, in Column -- I believe it's
19 Column 3, the bottom of Column 3, Tilfors describes only one transaction at
20 a time is handled within one order book, and there is nowhere else in the
21 description of his invention where Tilfors describes based on a priority
22 system. Tilfors does mention in the background that it's conventional to
23 have what he'd call a simple first -- first serve model of matching, and he
24 describes that in the background, Column 1, Line 14 or 15, but nowhere do
25 we see if Tilfors has any interaction with its order flow based upon any sort
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1 of priority. So therefore, Tilfors cannot describe the precise matching that
2 occurs in Claim 1.

3 Tilfors handles custom orders according to Figures 1 and Figures 2A.
4 In Figure 1, the system checks the buy and sell prices for a match and then
5 checks the type of counterpart. Now, I know the Board and specifically, the
6 Examiner, have felt as though checking the type of counterpart checks the
7 identity of the market participant. We do not believe that Tilfors describes
8 any particular mechanism and how -- type, but presumably, the order entry
9 itself included a type deal that describes what type of order that is.

10 But even assuming that in order for Tilfors to describe -- in order to
11 determine the type of order, whether it's a customer order, a firm order or a
12 market maker order, Tilfors would still not describe the entire feature of --
13 that first feature of Claim 1. Even if Tilfors identifies who the market
14 participant is, they don't check to see if that market participant associated
15 with a customer order is often like the best -- has a quote in the system that's
16 at the best bidder/best offer price.

17 So if we were to assume the Examiner's contention that the checking
18 that goes on in Tilfors must identify the participants, it still does not produce
19 the entire feature of Claim 1. Tilfors, for a customer order, teaches in Figure
20 2A that the market maker always participates at full volume and has a
21 procedure for him on additional volume that refreshes the quantity by
22 application of a worse tick rule (ph.) or by auto refresh of the quote. None
23 of that, however, pertains to the claimed features. Tilfors also describes
24 similar mechanisms for handling firm and market maker quotes. But again,
25 none of that pertains to the claimed features.

26

1 Are there any questions at this point?

2 JUDGE MOHANTY: I have a quick question about Claim 1. When
3 you say the identifications are matched, this is a buyer and seller selling
4 essentially to themselves?

5 MR. MALONEY: So what happens is in the market, if you wanted to
6 buy or sell a security, you go in through, typically, a broker/dealer, or some
7 entity that has the right to enter order flow into the market, and there would
8 be identification that identifies, say, Merrill Lynch as the broker/dealer and
9 enters your order. And what this claim is getting at is that when Merrill
10 Lynch enters your order, Merrill Lynch could have possibly executed your
11 order on its own system if it had an order from another participant in its own
12 system that, you know, for instance, from another customer order that it had
13 received.

14 And rather than having Merrill Lynch keep that order just -- system,
15 this feature allows Merrill Lynch to put that order on a national exchange,
16 such as NASDAQ, so that when that order comes in, the system checks to
17 see is Merrill Lynch at the top of the -- does Merrill Lynch have a quote in
18 the system that represents the best bid, if you will, in the system, and if it
19 does, even though it may not be the next one in line to execute, it will
20 execute the order against them anyway before applying the time priority that
21 quotes in the system.

22 JUDGE MOHANTY: Okay.

23 MR. MALONEY: So this basically allows Merrill Lynch to execute
24 against its own customers in NASDAQ, irrespective of whether or not it's at
25 the top of the queue. Now, if Merrill Lynch has a quote in the system that's
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1 one tick worse, then it would not execute because the customer is going to
2 get the best price. So if there are better prices in the system, that customer
3 will execute getting the better prices. But if it's at the best price in the
4 system, even though it may not be next in line to execute against the
5 customer's order, it's going to execute anyway.

6 JUDGE MOHANTY: Okay. No further questions from me.

7 MR. MALONEY: Okay.

8 JUDGE LORIN: Any further comments, counsel?

9 MR. MALONEY: Well, I have other claims to go over, so I'd like to
10 look at those other claims if it's okay with you.

11 JUDGE LORIN: Yeah. Proceed, counsel.

12 MR. MALONEY: Okay. So Claim 3 -- sorry, let me just finish with
13 Claim 1. So, eventually, we see that Tilfors is deficient in at least two
14 respects. It doesn't rely upon the matching of market maker IDs, particularly
15 for customer orders, and Tilfors does not implement any particular
16 procedure for addressing priority for matching with respect to any of the
17 teachings in the specification. It does mention, in a sense, priority in the
18 background, and it does describe that it takes one order at a time, but it never
19 modifies to go outside this priority. It doesn't actually even establish a
20 priority in the system, but if it does establish a priority, it doesn't change that
21 priority based upon the outcome of the algorithm that's claimed in Claim 1.

22 So with respect to Claim 3, we feel as though that the -- we discuss
23 specifically that it's time priority. And, again, Tilfors mentions this
24 conventional first in first server model in the background, but we believe
25 that Tilfors at best -- teaches away from matching off the customer order,
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1 irrespective of time priority, by the way they handle quotes in the system, at
2 the bottom of Column 3. And in any event, nothing that the Board or the
3 Examiner has relied upon in Tilfors had to do with the mechanism which
4 describes changes in volume as at all relevant to the time priority feature of
5 the claim.

6 And then with respect to Claim 4, which is the combination of Tilfors
7 in view of May, the Board has already ruled on May with respect to Claim 1.
8 The Examiner now uses May for the limited purpose of canceling -- calling
9 and canceling the request of quote, like the size of market in which the
10 match-off will be executed. Now, we take the position that May, in fact,
11 does not really teach canceling a quote -- talk about canceling an order. But
12 more importantly, to the extent that May can be construed to also cancel a
13 quote, May does not describe any mechanism for canceling a quote under
14 the specific circumstances that are required by Claim 4.

15 The object of Claim 4 is that if the order has already been executed in
16 the system by the participant that places the quote on the electronic market,
17 such as NASDAQ, the order may actually get routed to the participant,
18 depending on how the participant participates at NASDAQ. And if they've
19 already executed it, they're going to want to cancel the quote in NASDAQ so
20 that they're not subject to dual liability. And this simply is not addressed at
21 all by May or May in combination with Tilfors.

22 So that's all I really have. I would be happy to entertain any other
23 questions, but I firmly believe that the combination of these references do
24 not suggest any of the features of these claims.

1 JUDGE LORIN: No. There are no further questions, counsel. Thank
2 you very much.

3 MR. MALONEY: You're welcome. Thank you.

4 Whereupon, the proceedings, at 9:45 a.m., were concluded.

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